FDIC State Profile

Winter 2004

Connecticut

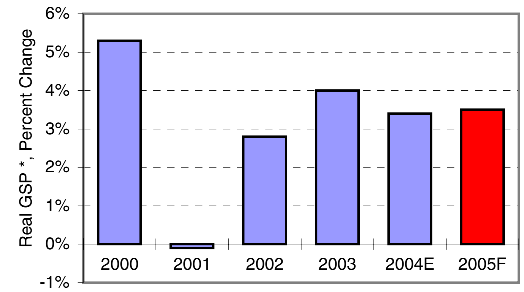
National real gross domestic product (GDP) is forecasted to moderate in 2005.

- National real GDP during 2004 is currently forecasted by Economy.com to grow about 4.0 percent when measured fourth quarter 2003 to fourth quarter 2004. This would be slightly below the 4.4 percent growth posted for 2003, but well ahead of the 2.3 percent growth in 2002 and the 0.2 percent growth experienced during the recession year of 2001.
- Consensus forecasts project 2005 real GDP growth to moderate to about 3.0 percent when measured on this basis.

Connecticut, along with other states in New England, benefited from growth in the national economy during 2004. The 2005 forecast expects growth to continue.

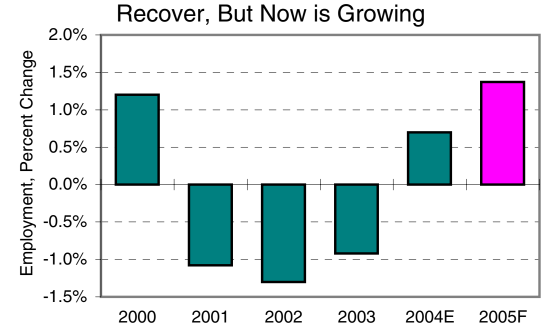
- Connecticut gross state product will slow only slightly for 2004 and for 2005 from the 4.0 percent gain of 2003 according to a regional growth forecast prepared by the New England Economic Partnership (See Chart 1).
- Growth in payroll employment will likely accelerate through next year (See Chart 2). Employment growth has lagged the turnaround in output, as it generally does, because businesses are reluctant to hire during the initial phases of an economic recovery. Both labor demand and the rate of employment growth should improve
- Due to large capital investment requirements of many key industries in New England, the lag in job growth has been more pronounced here. Consequently, increases in labor demand in New England have lagged national trends. In addition, slow labor force growth and relatively high costs of doing business have also contributed to a more muted employment growth relative to the national average.
- In Connecticut, the increase in defense contracts in recent years has helped to stabilize the manufacturing sector, although the outlook remains guarded owing to losses of some large contracts that were pending at defense firms located in the state.

Chart 1: Real Output Growth in Connecticut is Forecast to Continue Next Year



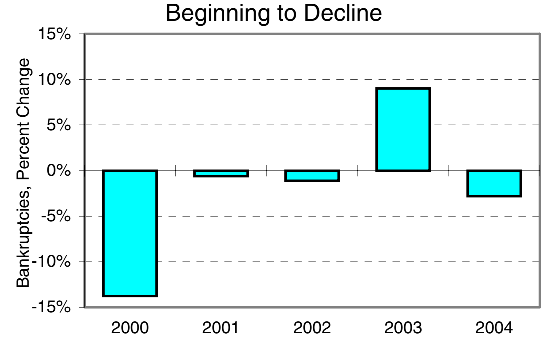
* Gross State Product, Q4 to Q4
Source: New England Economic Partnership and Economy.com

Chart 2: Payroll Employment Was Slow to Recover, But Now is Growing



Source: New England Economic Partnership and Economy.com (Q4 to Q4 data)

Chart 3: Bankruptcy Filings Are Beginning to Decline



Source: Administrative Office of the U.S. Courts (Q2 to Q2 data)

Better economic times in Connecticut imply fewer bankruptcies.

- The lack of payroll growth during the years 2001-2003 contributed to the rise in bankruptcies that peaked in 2003 (See Chart 3).
- The gradual improvement in payroll employment's performance suggests bankruptcies are likely to continue to decline—even more than they did during the four quarters ending in June 2004.

Connecticut's insured institutions report a profit as net interest margins (NIMs) remain pressured from high mortgage loan concentrations.

- Connecticut's small insured institutions (assets less than $1 billion) reported a median return on assets (ROA) of 0.76 percent as of September 30, 2004. ROA improved slightly in the third quarter as operating efficiencies improved. Almost half of Connecticut's small institutions are classified as mortgage lenders[1] and earnings continue to be affected by low interest rates that are squeezing the NIMs (See Chart 4).
- Residential mortgage loans account for 64 percent of total loans in Connecticut's small institutions (twice the national average). These loans will continue to suppress profitability as insured institutions will not have the ability to reprice these assets as funding costs increase when interest rates rise.
- Connecticut's large institutions (assets greater than $1 billion) boosted profitability 10 basis points in the third quarter to 1.32 percent as operating efficiencies improved and NIMs also increased. NIMs are boosted by larger concentrations of higher yielding commercial loans in the large institutions. Credit quality remains strong allowing low levels of provision expenses.

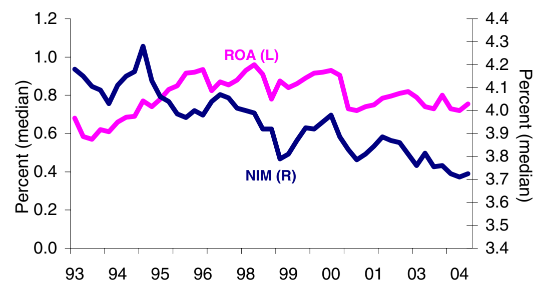
The number of banking offices in Connecticut is increasing

- Insured banking institutions operated 1,188 offices in Connecticut as of June 30, 2004, an increase of 31 offices since 2001.During the mid 1990s and again in 2000 industry consolidation resulted in a decline in the number of banking offices in the state (See Chart 5).
- Out-of-state institutions controlled 45 percent of total deposits in Connecticut as of June 30, 2004. Connecticut's ratio of out-of-state controlled deposits is the 16th highest in the nation. This is in sharp contrast to 1994 when only 5 percent of deposits were controlled by out-of-state institutions.

Loan growth is strong in Connecticut as insured institutions expand commercial loan portfolios.

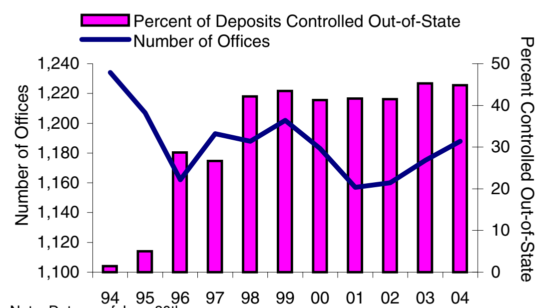
- The median growth rate for total loans was strong at almost 13 percent as of September 30, 2004, the highest growth rate posted in the past several years. Commercial and industrial (C&I) and commercial real estate (CRE) loans are driving the loan growth (See Chart 6).
- The state's large institutions continued to be very active in the mortgage market and posted a median growth rate for mortgage loans of 22 percent as of September 30, 2004 versus a median growth rate of nine percent for all insured institutions in the state.

Chart 4: Earnings Show Pressure as Margins Continue to Decline in Small Institutions



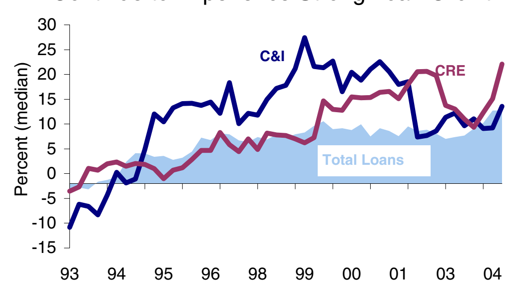
Note: Data as of September 30, 2004. Institutions with assets less than $1 billion.
Source: FDIC

Chart 5: The Number of Banking Offices Has Been Increasing in Connecticut Since 2001



Note: Data as of June 30th.
Source: FDIC

Chart 6: Insured Institutions in Connecticut Continue to Experience Strong Loan Growth



Note: Data as of September 30, 2004.
Source: FDIC

[1]Mortgage lenders are institutions with more than half of assets in mortgage-related products.

Connecticut at a Glance

General Information	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Institutions (#)	58	66	66	68	71
Total Assets (in thousands)	61,027,499	55,023,730	53,426,650	48,996,621	48,497,625
New Institutions (# < 3 years)	4	7	8	10	9
New Institutions (# < 9 years)	12	15	15	15	12

Capital	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Tier 1 Leverage (median)	10.28	9.08	9.15	9.60	9.45

Asset Quality	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Past-Due and Nonaccrual (median %)	0.63%	1.00%	0.93%	1.09%	0.98%
Past-Due and Nonaccrual >= 5%	0	2	2	2	1
ALLL/Total Loans (median %)	1.12%	1.20%	1.15%	1.16%	1.20%
ALLL/Noncurrent Loans (median multiple)	2.54	2.68	2.59	2.37	2.74
Net Loan Losses/Loans (aggregate)	0.07%	0.26%	0.35%	0.37%	0.25%

Earnings (Year-to-Date Annualized)	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Unprofitable Institutions (#)	6	9	8	9	7
Percent Unprofitable	10.34%	13.64%	12.12%	13.24%	9.86%
Return on Assets (median %)	0.82	0.81	0.86	0.76	0.94
25th Percentile	0.48	0.55	0.52	0.49	0.65
Net Interest Margin (median %)	3.68%	3.68%	3.81%	3.78%	3.93%
Yield on Earning Assets (median)	5.07%	5.46%	6.28%	7.29%	7.50%
Cost of Funding Earning Assets (median)	1.43%	1.68%	2.36%	3.55%	3.68%
Provisions to Avg. Assets (median)	0.03%	0.06%	0.08%	0.06%	0.06%
Noninterest Income to Avg. Assets (median)	0.50%	0.56%	0.55%	0.52%	0.45%
Overhead to Avg. Assets (median)	2.93%	2.81%	2.89%	2.82%	2.89%

Liquidity/Sensitivity	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Loans to Deposits (median %)	78.82%	74.82%	73.72%	76.70%	80.18%
Loans to Assets (median %)	63.59%	58.48%	60.04%	61.03%	63.29%
Brokered Deposits (# of Institutions)	15	7	5	4	5
Bro. Deps./Assets (median for above inst.)	1.34%	0.48%	0.10%	0.24%	3.33%
Noncore Funding to Assets (median)	18.44%	16.45%	15.54%	13.88%	14.36%
Core Funding to Assets (median)	69.07%	71.90%	72.41%	73.17%	73.09%

Bank Class	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
State Nonmember	13	15	15	14	13
National	9	9	8	8	8
State Member	2	2	2	2	2
S&L	1	3	4	6	8
Savings Bank	7	6	6	5	5
Stock and Mutual SB	26	31	31	33	35

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
Hartford CT	15	3,326,367	25.86%	5.45%
No MSA	13	6,002,729	22.41%	9.84%
Stamford-Norwalk CT PMSA	7	5,028,416	12.07%	8.24%
New Haven-Meriden CT PMSA	7	7,351,130	12.07%	12.05%
Danbury CT PMSA	5	4,413,836	8.62%	7.23%
Waterbury CT PMSA	4	18,975,870	6.90%	31.09%
New London-Norwich CT-RI	4	5,010,741	6.90%	8.21%
Bridgeport CT PMSA	3	10,918,410	5.17%	17.89%